HORMEL FOODS CORP /DE/
Form 10-Q
June 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 29, 2007

Commission File Number 1-2402

HORMEL FOODS CORPORATION

Incorporated Under the Laws of the State of Delaware

I.R.S. Employer Identification No. #41-0319970

1 Hormel Place
Austin, Minnesota 55912-3680
Telephoene - (507) 437-5611

None

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at June 3, 2007**	
Common Stock	$.0586 par value	137,669,310
Common Stock Non-Voting	$.01 par value	-0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	April 29, 2007 (Unaudited)	**October 29, 2006**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 93,998	$ 172,485
Short-term marketable securities	13,775	0
Accounts receivable	322,634	341,916
Inventories	637,425	570,932
Deferred income taxes	52,654	48,535
Prepaid expenses and other current assets	18,380	7,803
TOTAL CURRENT ASSETS	1,138,866	1,141,671
DEFERRED INCOME TAXES	10,724	7,387
GOODWILL	550,060	550,706
OTHER INTANGIBLES	145,059	147,975
NET PENSION ASSETS	61,767	66,097
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	94,632	76,684
OTHER ASSETS	164,506	158,976
PROPERTY, PLANT AND EQUIPMENT		
Land	48,951	46,854
Buildings	571,618	562,949
Equipment	1,152,517	1,110,315
Construction in progress	151,464	123,608
	1,924,550	1,843,726
Less allowance for depreciation	(980,728)	(932,916)
	943,822	910,810
TOTAL ASSETS	$ 3,109,436	$ 3,060,306

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	April 29, 2007 (Unaudited)	October 29, 2006
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 234,475	$ 271,358
Accrued expenses	36,993	27,103
Accrued workers compensation	30,084	27,895
Accrued marketing expenses	76,579	68,503
Employee compensation	84,850	107,332
Taxes, other than federal income taxes	5,326	7,784
Dividends payable	20,725	19,361
Federal income taxes	26,543	55,312
Current maturities of long-term debt	71	366
TOTAL CURRENT LIABILITIES	515,646	585,014
LONG-TERM DEBT less current maturities	350,020	350,054
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION	271,519	271,240
OTHER LONG-TERM LIABILITIES	54,562	51,086
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value $.0586 a share authorized 400,000,000 shares;		
issued 137,616,109 shares April 29, 2007		
issued 137,639,954 shares October 29, 2006	8,064	8,066
Additional paid-in capital	6,037	2,507
Accumulated other comprehensive loss	(19,696)	(17,996)
Retained earnings	1,923,284	1,821,202
	1,917,689	1,813,779
Shares held in treasury 300,000 shares October 29, 2006	0	(10,867)
TOTAL SHAREHOLDERS INVESTMENT	1,917,689	1,802,912
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 3,109,436	$ 3,060,306

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Net sales	$ 1,504,597	$ 1,365,345	$ 3,008,680	$ 2,781,278
Cost of products sold	1,158,711	1,033,866	2,303,357	2,096,804
GROSS PROFIT	345,886	331,479	705,323	684,474
Expenses:				
Selling and delivery	192,507	187,474	391,151	379,499
Administrative and general	40,433	40,314	82,343	98,034
TOTAL EXPENSES	232,940	227,788	473,494	477,533
Equity in earnings of affiliates	(31)	1,302	872	3,700
OPERATING INCOME	112,915	104,993	232,701	210,641
Other income and expense:				
Interest and investment income	2,625	3,009	4,705	3,893
Interest expense	(6,998)	(6,404)	(13,356)	(12,636)
EARNINGS BEFORE INCOME TAXES	108,542	101,598	224,050	201,898
Provision for income taxes	40,541	34,290	80,724	65,314
NET EARNINGS	$ 68,001	$ 67,308	$ 143,326	$ 136,584
NET EARNINGS PER SHARE:				
BASIC	$ 0.49	$ 0.49	$ 1.04	$ 0.99
DILUTED	$ 0.49	$ 0.48	$ 1.03	$ 0.98
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	137,743	137,906	137,638	137,902
DILUTED	139,711	139,559	139,639	139,502
DIVIDENDS DECLARED PER SHARE:	$ 0.15	$ 0.14	$ 0.30	$ 0.28

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

	Six Months Ended April 29, 2007	April 30, 2006
OPERATING ACTIVITIES		
Net earnings	$ 143,326	$ 136,584
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	56,779	54,746
Amortization of intangibles	5,863	4,957
Equity in earnings of affiliates	(1,466)	(3,241)
Provision for deferred income taxes	(3,013)	(2,960)
Loss on property/equipment sales and plant facilities	69	186
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	24,814	28,396
Increase in inventories, prepaid expenses, and other current assets	(73,348)	(67,655)
Decrease (Increase) in net pension assets	4,330	(2,592)
Decrease in accounts payable and accrued expenses	(74,132)	(59,870)
Other	5,564	11,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	88,786	99,795
INVESTING ACTIVITIES		
Sale of available-for-sale securities	284,850	145,125
Purchase of available-for-sale securities	(298,625)	(106,625)
Acquisitions of businesses/intangibles	(13,618)	(74,777)
Purchases of property/equipment	(69,961)	(63,646)
Proceeds from sales of property/equipment	2,824	2,201
Increase in investments, equity in affiliates, and other assets	(21,134)	(1,573)
NET CASH USED IN INVESTING ACTIVITIES	(115,664)	(99,295)
FINANCING ACTIVITIES		
Proceeds from short-term debt	15,000	40,000
Principal payments on short-term debt	(17,576)	(5,000)
Principal payments on long-term debt	(6,304)	(337)
Dividends paid on common stock	(39,881)	(37,215)
Share repurchase	(11,706)	(12,723)
Other	8,858	4,370
NET CASH USED IN FINANCING ACTIVITIES	(51,609)	(10,905)
DECREASE IN CASH AND CASH EQUIVALENTS	(78,487)	(10,405)
Cash and cash equivalents at beginning of year	172,485	131,046
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 93,998	$ 120,641

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

NOTE A GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 29, 2006, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended October 29, 2006.

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation and to conform to recent accounting pronouncements and guidance. The reclassifications had no impact on net earnings as previously reported.

Income Taxes

The effective tax rate for the second quarter and first six months of fiscal 2007 was 37.4 and 36.0 percent, respectively, compared to 33.8 and 32.4 percent for the comparable periods of fiscal 2006. The higher rate is primarily due to a $1,642 charge in the second quarter of 2007 for discrete events related to unfavorable prior period audits, while the second quarter rate in 2006 was reduced by a discrete benefit related to a favorable prior year audit settlement. The lower six month rate for fiscal 2006 also reflects a discrete item recorded in the first quarter for the tax benefit related to a Medicare subsidy created under the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. Currently, the Company provides a standby letter of credit for obligations of an affiliated party that may arise under worker compensation claims. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. Total guarantees provided by the Company, as of April 29, 2007, amounted to $1,940. These potential obligations are not reflected in the Company s consolidated statements of financial position.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). The pronouncement requires the funded status of a plan, measured as the difference between the fair value of plan assets and the benefit obligation, be recognized on a plan sponsor s statement of financial position. It also requires gains or losses that arise during the plan year to be recognized as a component of other comprehensive income to the extent they are not recognized in net periodic benefit cost during the year. These provisions are effective for fiscal years ending after December 15, 2006. For fiscal years ending after December 15, 2008, the pronouncement further requires plan sponsors to measure defined benefit plan assets and obligations as of the date of the plan sponsor s fiscal year-end statement of financial position. The Company will adopt the required provisions of this statement for the fiscal 2007 year end, and is currently assessing the impact of adopting this accounting standard.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and therefore the Company expects to adopt FIN 48 at the beginning of fiscal 2008. The Company has not yet determined the impact of this accounting standard.

NOTE B ACQUISITIONS

On November 10, 2006, the Company acquired the assets of Saag s Products, Inc. (Saag s) for a preliminary purchase price of $12,997 in cash, plus the assumption of certain liabilities. Saag s is based in San Leandro, California, and is a processor and marketer of branded, premium quality gourmet sausages and specialty smoked meats. The acquisition provides opportunities to expand the Company s production capacity, and to enhance the product portfolio within the Refrigerated Foods segment. The purchase price is preliminary pending the accrual of potential earn-outs that may be earned over the five year period following the acquisition.

On December 15, 2006, the Company completed the acquisition of Provena Foods Inc. (Provena). Provena was a publicly traded company based in Chino, California, and provides pepperoni and pasta to pizza makers and packaged food manufacturers. Under the terms of the agreement, each outstanding share of Provena common stock was converted into 0.08 shares of Hormel Foods Corporation common stock, resulting in the issuance of 287,473 shares of the Company s common stock at $38.12 per share. The transaction has a total preliminary value of $11,651 in cash and stock, plus the assumption of various liabilities. The acquisition is expected to strengthen the capabilities of the Refrigerated Foods segment by providing additional production capacity. The transaction value is preliminary pending final appraisals.

Operating results for each acquisition above are included in the Company s consolidated statements of operations from the date of acquisition. Pro forma results are not presented as the acquisitions are not considered material, individually or in the aggregate, to the consolidated Company.

NOTE C STOCK-BASED COMPENSATION

The Company has stock incentive plans for employees and non-employee directors, including stock options and nonvested shares. The Company s policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Ordinary options vest over periods ranging from six months to four years and expire ten years after the grant date. The Company recognizes stock-based compensation expense ratably over the shorter of the requisite service period or vesting period. The fair value of stock-based compensation granted to retirement-eligible individuals is expensed at the time of grant.

During the first quarter of fiscal 2007, the Company made a one-time grant of 100 stock options to each active, full-time employee of the Company on January 8, 2007. This grant vests upon the earlier of five years or attainment of a closing stock price of $50.00 per share for five consecutive trading days, and expires ten years after the grant date.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of April 29, 2007, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at 10/29/06	8,823	$ 24.81		
Granted	3,001	37.91		
Exercised	(449)	16.46		
Forfeitures	(2)	30.88		
Outstanding at 4/29/07	11,373	$ 28.60	6.7 years	$ 109,561
Exercisable at 4/29/07	6,435	$ 23.60	5.0 years	$ 93,840

The weighted-average grant-date fair value of stock options granted, and the total intrinsic value of options exercised during the three and six months of fiscal years 2007 and 2006, is as follows:

	Three Months Ended April 29, 2007	Three Months Ended April 30, 2006	Six Months Ended April 29, 2007	Six Months Ended April 30, 2006
Weighted-average grant date fair value	$ 11.28	$ 9.55	$ 9.40	$ 9.25
Intrinsic value of exercised options	$ 2,720	$ 1,791	$ 9,802	$ 9,796

The fair value of each ordinary option award is calculated on the date of grant using the Black-Scholes valuation model. The fair value of the one-time option award made to all active, full-time employees during the first quarter of fiscal 2007 was calculated using a lattice-based model due to the inclusion of the performance condition that could accelerate vesting. Weighted-average assumptions used in calculating the fair value of options granted during the three and six months of fiscal years 2007 and 2006 are as follows:

	Three Months Ended April 29, 2007	Three Months Ended April 30, 2006	Six Months Ended April 29, 2007	Six Months Ended April 30, 2006
Risk-Free Interest Rate	4.9 %	4.6 %	4.6 %	4.5 %
Dividend Yield	1.6 %	1.7 %	1.6 %	1.7 %
Stock Price Volatility	21.0 %	21.0 %	21.0 %	21.0 %
Expected Option Life	8 years	8 years	7 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company s Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for ordinary options grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee groups. For the valuation of the one-time options grant made during the first quarter of fiscal 2007, the Company assumed early exercise behavior for a portion of the employee population.

The Company s nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of April 29, 2007, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at 10/29/06	99	$ 32.16
Granted	28	37.92
Vested	(55)	33.14
Nonvested at 4/29/07	72	$ 33.62

The weighted-average grant date fair value of nonvested shares granted, the total fair value of nonvested shares granted, and the fair value of shares that have vested during the three and six months of fiscal years 2007 and 2006, is as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Weighted-average grant date fair value	$ 37.92	$ 33.53	$ 37.92	$ 33.35
Fair value of nonvested shares granted	$ 1,043	$ 880	$ 1,043	$ 2,543
Fair value of shares vested	$ 25	$ 35	$ 1,813	$ 2,959

Stock-based compensation expense, along with the related income tax benefit, for the three and six months of fiscal years 2007 and 2006 is presented in the table below. The expense for the three and six months of fiscal 2007 includes $423 and $2,185, respectively, related to the one-time grant of 100 stock options to all active, full-time employees during the first quarter.

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Stock-based compensation expense recognized	$ 2,802	$ 2,387	$ 10,066	$ 14,497
Income tax benefit recognized	(1,065)	(895)	(3,826)	(5,435)
After-tax stock-based compensation expense	$ 1,737	$ 1,492	$ 6,240	$ 9,062

At April 29, 2007, there was $22,614 of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 3.3 years. During the quarter and six months ended April 29, 2007, cash received from stock option exercises was $1,492 and $4,371, compared to $662 and $2,226 for the quarter and six months ended April 30, 2006. The total tax benefit to be realized for tax deductions from these option exercises for the quarter and six months ended April 29, 2007, was $1,034 and $3,726, respectively, compared to $671 and $4,886 in the comparable periods in fiscal 2006. The amounts reported for tax deductions for option exercises in the quarter and six months ended April 29, 2007 include $1,023 and $3,588, respectively, of excess tax benefits compared to $648 and $2,493, respectively, of excess tax benefits last year, which are included in Other under financing activities on the Consolidated Statements of Cash Flows (with an offsetting amount in other operating activities).

Shares issued for option exercises and nonvested shares may be either authorized but unissued shares, or shares of treasury stock acquired in the open market or otherwise.

NOTE D **GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the three and six month periods ended April 29, 2007, are presented in the tables below. Goodwill acquired in the quarter and six months relates to the acquisition of Saag s, while the purchase adjustments relate to the Valley Fresh acquisition. The reclassification in 2007 represents the movement of the Dan s Prize operating segment from All Other to Refrigerated Foods. See additional discussion in Note K.

	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of January 28, 2007	$ 124,371	$ 27,561	$ 203,214	$ 194,817	$ 674	$ 550,637
Goodwill acquired		522				522
Purchase adjustments	(1,007)			(92)		(1,099)
Balance as of April 29, 2007	$ 123,364	$ 28,083	$ 203,214	$ 194,725	$ 674	$ 550,060

	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of October 29, 2006	$ 124,367	$ 25,956	$ 203,214	$ 194,817	$ 2,352	$ 550,706
Goodwill acquired		525				525
Purchase adjustments	(1,003)	(76)		(92)		(1,171)
Reclassifications		1,678			(1,678)	
Balance as of April 29, 2007	$ 123,364	$ 28,083	$ 203,214	$ 194,725	$ 674	$ 550,060

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented below. Intangible assets with a gross carrying value of $2,107 were added during the first six months of 2007 related to the acquisitions of Saag s and Provena.

	April 29, 2007 Gross Carrying Amount	Accumulated Amortization	October 29, 2006 Gross Carrying Amount	Accumulated Amortization
Non-compete covenants	$ 18,630	$ (12,042)	$ 19,310	$ (11,103)
Formulas & recipes	18,415	(8,220)	20,875	(9,574)
Proprietary software & technology	17,890	(4,942)	17,040	(3,831)
Customer lists/relationships	11,518	(3,678)	11,300	(3,093)
Distribution network	4,120	(1,509)	3,700	(1,303)
Purchase & supply agreements	2,140	(2,081)	2,460	(2,096)
Other intangibles	8,291	(3,456)	7,992	(2,845)
Total	$ 81,004	$ (35,928)	$ 82,677	$ (33,845)

Amortization expense was $2,925 and $5,863 for the three and six months ended April 29, 2007, respectively, compared to $2,465 and $4,957 for the three and six months ended April 30, 2006.

Estimated annual amortization expense for the five fiscal years after October 29, 2006, is as follows:

2007	$ 11,466
2008	8,460
2009	6,776
2010	5,950
2011	5,093

The carrying amounts for indefinite-lived intangible assets are presented in the table below. The increase in 2007 represents trademarks acquired from Saag s.

	April 29, 2007	October 29, 2006
Brands/tradenames/trademarks	$ 91,999	$ 91,159
Other intangibles	7,984	7,984
Total	$ 99,983	$ 99,143

NOTE E SHIPPING AND HANDLING COSTS

Shipping and handling costs are recorded as selling and delivery expenses. Shipping and handling costs were $101,587 and $203,963 for the three and six months ended April 29, 2007, respectively, compared to $98,794 and $199,686 for the three and six months ended April 30, 2006.

NOTE F EARNINGS PER SHARE DATA

The following table sets forth the denominator for the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Basic weighted-average shares outstanding	137,743	137,906	137,638	137,902
Dilutive potential common shares	1,968	1,653	2,001	1,600
Diluted weighted-average shares outstanding	139,711	139,559	139,639	139,502

NOTE G COMPREHENSIVE INCOME

Components of comprehensive income, net of taxes, are:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Net earnings	$ 68,001	$ 67,308	$ 143,326	$ 136,584
Other comprehensive (loss) income:				
Unrealized loss on available-for- sale securities			(381)	
Deferred loss on hedging	(5,421)	(1,169)	(4,810)	(1,983)
Reclassification adjustment into net earnings	488	323	1,718	(1,240)
Foreign currency translation	459	1,219	1,773	2,898
Other comprehensive (loss) income	(4,474)	373	(1,700)	(325)
Total comprehensive income	$ 63,527	$ 67,681	$ 141,626	$ 136,259

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NOTE H INVENTORIES

Principal components of inventories are:

	April 29, 2007	October 29, 2006
Finished products	$ 342,953	$ 308,509
Raw materials and work-in-process	183,474	153,189
Materials and supplies	110,998	109,234
Total	$ 637,425	$ 570,932

NOTE I DERIVATIVES AND HEDGING

The Company uses hedging programs to manage price risk associated with commodity purchases and foreign currency transactions. These programs utilize futures contracts and swaps to manage the Company s exposure to price fluctuations in the commodities markets and fluctuations in foreign currencies. The Company has determined its hedge programs to be highly effective in offsetting the changes in fair value or cash flows generated by the items hedged.

Cash Flow Hedge: The Company from time to time utilizes corn and soybean meal futures to offset the price fluctuation in the Company s future direct grain purchases, and has entered into various NYMEX-based swaps to hedge the purchase of natural gas at certain plant locations. The Company also utilizes currency futures contracts to reduce its exposure to fluctuations in foreign currencies for certain foreign-denominated transactions. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported as other comprehensive income (loss) and reclassified into earnings, through cost of products sold (commodity positions) or net sales (currency futures), in the period or periods in which the hedged transactions affect earnings. The Company typically does not hedge its grain and currency exposure beyond 24 months and its natural gas exposure beyond 36 months.

As of April 29, 2007, the Company has included in Accumulated other comprehensive loss, hedging losses of $4,555 (net of tax) relating to its positions. The Company expects to recognize the majority of these losses over the next 12 months. Losses in the amount of $777 and $2,759, before tax, were reclassified into earnings in the three and six months ending April 29, 2007, respectively, compared to losses of $529 and gains of $1,979, before tax, in the three and six months ended April 30, 2006. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

Fair Value Hedge: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery.

The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the statement of financial position as a current asset and liability, respectively. Gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings.

As of April 29, 2007, the fair value of the Company s futures contracts included on the statement of financial position was $(5,159). Losses on closed futures contracts in the amount of $5,353 and $13,304, before tax, were recognized in earnings during the three and six months ended April 29, 2007, compared to gains of $892 and $2,285, before tax, in the same periods of fiscal 2006. There were no gains or losses recognized into earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

Other: During the second quarter of fiscal 2007, the Company held certain futures contract positions as part of a merchandising program designed to enhance the margins of company-owned livestock. The Company has not applied hedge accounting to these positions. During the second quarter, the Company recorded a charge of $128 through cost of products sold to record these contracts at their fair value. The merchandising program was closed by the end of the second quarter.

NOTE J PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Net periodic benefit cost for pension and other postretirement benefit plans consists of the following:

	Pension Benefits			
	Three Months Ended		**Six Months Ended**	
	April 29, 2007	**April 30, 2006**	**April 29, 2007**	**April 30, 2006**
Service cost	$ 4,750	$ 5,366	$ 9,500	$ 10,995
Interest cost	10,637	10,063	21,275	20,212
Expected return on plan assets	(13,376)	(12,791)	(26,752)	(25,583)
Amortization of prior service cost	(29)	228	(58)	456
Recognized actuarial loss	1,466	2,359	2,932	4,878
Settlement charge	0	0	0	7,286
Net periodic cost	$ 3,448	$ 5,225	$ 6,897	$ 18,244

	Other Postretirement Benefits			
	Three Months Ended		**Six Months Ended**	
	April 29, 2007	**April 30, 2006**	**April 29, 2007**	**April 30, 2006**
Service cost	$ 748	$ 875	$ 1,496	$ 1,750
Interest cost	5,767	5,408	11,534	10,817
Amortization of prior service cost	1,433	1,414	2,866	2,827
Recognized actuarial loss	923	884	1,845	1,767
Net periodic cost	$ 8,871	$ 8,581	$ 17,741	$ 17,161

The $7,286 settlement charge recognized in the first six months of fiscal 2006 represented partial settlements on non-qualified plans resulting from executive retirements.

NOTE K SEGMENT REPORTING

The Company develops, processes, and distributes a wide array of food products in a variety of markets. Under the criteria set forth by the accounting standard SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and All Other.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results of Valley Fresh, Inc. (Valley Fresh) branded products, acquired in the second quarter of fiscal 2006, and Arriba Foods, Inc. (Mexican Accent).

The Refrigerated Foods segment includes the business units of Meat Products, Foodservice, and Saag s, acquired in November 2006. Clougherty Packing, LLC (Farmer John) is also an operating segment within Refrigerated Foods. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork products for retail, foodservice, and fresh product customers. This segment also includes the 51 percent owned Precept Foods, LLC joint venture, which offers fresh, case-ready, branded pork and beef products to its retail customers. The Meat Products business unit includes the results of operations for Lloyd s Barbeque Company (Lloyd s), and the Foodservice business unit includes the results of operations for Provena

(acquired in December 2006). Due to the similarity of operations, product lines, and common management structure, the Dan s Prize operating segment is also included in Refrigerated Foods beginning in fiscal 2007. Dan s Prize was previously reported in the All Other segment, and all prior year information has been reclassified to reflect this change.

The Jennie-O Turkey Store segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

The Specialty Foods segment includes the Diamond Crystal Brands, Century Foods International, and Hormel Specialty Products operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, dessert mixes, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products. Diamond Crystal Brands includes the results of operations for Hormel HealthLabs and Mark-Lynn Foods Inc. (Mark-Lynn). Specialty Products also includes the results for Valley Fresh private label products.

The All Other segment includes the Hormel Foods International operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes various miscellaneous corporate sales. As noted above, this segment previously included Dan s Prize, which became an operating segment of Refrigerated Foods beginning in fiscal 2007.

Intersegment sales are recorded at prices that approximate cost and are eliminated in the consolidated statements of operations. Equity in earnings of affiliates is included in segment profit; however, the Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. These items are included below as Net interest and investment income and General corporate expense when reconciling to earnings before income taxes.

Sales and operating profits for each of the Company s business segments and reconciliation to earnings before income taxes are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, we do not represent that these segments, if operated independently, would report the operating profit and other financial information shown below.

	Three Months Ended April 29, 2007	April 30, 2006	Six Months Ended April 29, 2007	April 30, 2006
Sales to Unaffiliated Customers				
Grocery Products	$ 223,625	$ 200,955	$ 429,841	$ 404,912
Refrigerated Foods	796,339	715,245	1,594,311	1,474,366
Jennie-O Turkey Store	270,044	254,607	546,658	521,653
Specialty Foods	169,069	157,016	346,148	308,178
All Other	45,520	37,522	91,722	72,169
Total	$ 1,504,597	$ 1,365,345	$ 3,008,680	$ 2,781,278
Intersegment Sales				
Grocery Products	$ 0	$ 0	$ 0	$ 0
Refrigerated Foods	839	460	1,129	1,011
Jennie-O Turkey Store	25,472	19,514	44,640	37,016
Specialty Foods	50	76	76	109
All Other	0	0	0	0
Total	$ 26,361	$ 20,050	$ 45,845	$ 38,136
Intersegment elimination	(26,361)	(20,050)	(45,845)	(38,136)
Total	$ 0	$ 0	$ 0	$ 0
Net Sales				
Grocery Products	$ 223,625	$ 200,955	$ 429,841	$ 404,912
Refrigerated Foods	797,178	715,705	1,595,440	1,475,377
Jennie-O Turkey Store	295,516	274,121	591,298	558,669
Specialty Foods	169,119	157,092	346,224	308,287
All Other	45,520	37,522	91,722	72,169
Intersegment elimination	(26,361)	(20,050)	(45,845)	(38,136)
Total	$ 1,504,597	$ 1,365,345	$ 3,008,680	$ 2,781,278
Segment Operating Profit				
Grocery Products	$ 39,194	$ 30,615	$ 72,178	$ 63,384
Refrigerated Foods	44,187	35,933	86,129	74,644
Jennie-O Turkey Store	13,949	26,640	43,920	66,319
Specialty Foods	16,281	12,217	34,323	22,545
All Other	4,866	4,193	11,340	8,119
Total segment operating profit	$ 118,477	$ 109,598	$ 247,890	$ 235,011
Net interest and investment income	(4,373)	(3,395)	(8,651)	(8,743)
General corporate expense	(5,562)	(4,605)	(15,189)	(24,370)
Earnings before income taxes	$ 108,542	$ 101,598	$ 224,050	$ 201,898

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (In Thousands of Dollars, Except Per Share Amounts)

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company s Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the year ended October 29, 2006.

RESULTS OF OPERATIONS

Overview

The Company is a processor of branded and unbranded food products for retail, foodservice, and fresh product customers. It operates in five segments as described in Note K in the Notes to Consolidated Financial Statements in this Form 10-Q.

The Company earned $0.49 per diluted share in the second quarter of fiscal 2007, compared to $0.48 per diluted share in the second quarter of fiscal 2006. Significant factors impacting the quarter were:

- Strong net sales and tonnage growth was reported by all five segments of the Company.
- The Jennie-O Turkey Store segment reported significant operating profit declines, as pricing advances were unable to offset the impact of continued higher grain costs.
- Refrigerated Foods operating profits increased, primarily due to strong pork packer margins during the quarter.
- Grocery Products showed improved profit results, driven by strong growth in microwave trays and increased margins on chili sales.
- Specialty Foods experienced another excellent quarter, with continued net sales and operating profit growth in all three operating segments.

Consolidated Results

Net earnings for the second quarter of fiscal 2007 increased 1.0 percent to $68,001 compared to $67,308 in the same quarter of 2006. Diluted earnings per share for the quarter increased to $0.49 from $0.48 last year. Net earnings for the first six months of 2007 increased 4.9 percent to $143,326 from $136,584 in 2006. Diluted earnings per share for the same period increased 5.1 percent to $1.03 from $0.98 in the prior year.

Net sales for the second quarter of fiscal 2007 increased 10.2 percent to $1,504,597 from $1,365,345 in 2006. Tonnage volume increased 5.0 percent to 1,096 million lbs. for the second quarter compared to 1,044 million lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2007 increased 8.2 percent to $3,008,680 from $2,781,278 in the first six months of fiscal 2006. Tonnage volume for the six months increased 5.4 percent over the comparable period of 2006. Net sales and tonnage volume comparisons for the second quarter and six months were positively impacted by the second quarter 2006 acquisition of Valley Fresh, and the first quarter 2007 acquisitions of Saag s and Provena. On a combined basis, these acquisitions contributed $24,155 of net sales and 13.5 million lbs. of tonnage volume to the second quarter results and $42,614 of net sales and 24.3 million lbs. of tonnage volume to the six month results. Excluding the impact of these acquisitions, net sales and tonnage volume showed increases of 8.4 percent and 3.7 percent, respectively, compared to the second quarter of fiscal 2006 and increases of 6.6 percent and 4.2 percent, respectively, compared to the first six months of last year.

Gross profit for the second quarter and six months of fiscal 2007 was $345,886 and $705,323, respectively, compared to $331,479 and $684,474 for the same periods last year. Gross profit as a percentage of net sales for the second quarter and six months decreased to 23.0 and 23.4 percent in 2007, from 24.3 and 24.6 percent for the comparable quarter and six months of fiscal 2006. The Company continued to struggle with significantly higher grain markets, with corn near the $4.00/bushel level during the quarter. This impacted margins, most notably in the Jennie-O Turkey Store (JOTS) segment, where feed costs per ton were 37.3 percent higher than in the comparable quarter of fiscal 2006. Pricing advances were pursued during the quarter, but the higher costs could not be passed on as quickly or as thoroughly as anticipated. A rapid rise in meat values also pressured margins

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in the Refrigerated Foods segment during the second quarter. Value added growth and cost containment initiatives across all segments offset a portion of these increases, and additional pricing advances will be pursued in upcoming quarters. Although this should result in some margin improvement during the second half of fiscal 2007, JOTS operating margins are expected to remain below prior year levels, at least through the third quarter.

Selling and delivery expenses for the second quarter and six months of fiscal 2007 were $192,507 and $391,151, respectively, compared to $187,474 and $379,499 last year. This increase is primarily due to higher shipping and handling costs of $2,793 and $4,277 for the second quarter and six months, respectively, over the same periods in fiscal 2006. Although lower freight costs have provided some benefit in fiscal 2007, those gains have been more than offset by higher warehousing and brokerage expenses across all business segments. Increased stock option expense of approximately $1,100 has also contributed to the six month increase over the prior year. Selling and delivery expenses as a percentage of net sales decreased to 12.8 and 13.0 percent for the fiscal 2007 second quarter and six months, respectively, compared to 13.7 and 13.6 percent of net sales in the comparable periods of 2006. Approximately $2,500 was reflected in selling and delivery expense in the first quarter of fiscal 2006 related to settlements on non-qualified plans resulting from executive retirements. The Company s marketing investment also decreased slightly to 2.1 and 2.2 percent of net sales for the second quarter and six months, respectively, compared to 2.4 percent for both comparable periods of 2006. However, additional marketing initiatives in support of the Company s brands and new product introductions are planned for the second half of the fiscal year. The Company expects selling and delivery expenses, as a percentage of net sales, to approximate 13.1 percent for fiscal year 2007.

Administrative and general expenses were $40,433 and $82,343 for the second quarter and six months, respectively, compared to $40,314 and $98,034 last year. As a percentage of net sales, administrative and general expenses for the quarter and six months remained flat at 2.7 percent, compared to 3.0 and 3.5 percent for the comparable quarter and six months in fiscal 2006. Favorable bad debt recoveries in the prior year were offset by lower pension and medical expenses, and overall decreases in administrative expenses during fiscal 2007. Administrative and general expenses for the six months are also lower compared to last year as a result of certain expenses recognized in the first quarter. In the first quarter of 2006, the Company recognized $9,200 of stock option expense recorded under SFAS 123(R) (Share-Based Payment), primarily due to executive retirements and expensing of new option grants to retirement eligible individuals, and approximately $3,800 for expenses related to partial settlements on non-qualified plans resulting from executive retirements. In comparison, the Company recorded stock option expense of approximately $2,000 in the first quarter of fiscal 2007 related to new option grants to retirement-eligible individuals, plus $423 and $2,185 for the second quarter and six months, respectively, related to the one-time grant of 100 stock options to all active, full-time employees. The Company expects administrative and general expenses to approximate 2.8 percent of net sales for the 2007 fiscal year.

Equity in earnings of affiliates was $(31) and $872 for the second quarter and six months, respectively, compared to $1,302 and $3,700 last year. Decreases for both the second quarter and six months primarily reflect decreased performance by the Company s 40.0 percent owned Philippine joint venture, Purefoods-Hormel Company, and by the Company s 49.0 percent owned joint venture, Carapelli USA, LLC. Minority interests in the Company s consolidated investments are also reflected in these figures, resulting in decreased earnings of $617 and $1,052 for the second quarter and six months, respectively, compared to the prior year.

The effective tax rate for the second quarter and six months of fiscal 2007 was 37.4 and 36.0 percent, respectively, compared to 33.8 and 32.4 percent for the comparable quarter and six months of fiscal 2006. The higher rate is primarily due to a $1,642 charge in the second quarter of 2007 for discrete events related to unfavorable prior period audits, while the second quarter rate in 2006 was reduced by a discrete benefit related to a favorable prior year audit settlement. The lower six month rate for fiscal 2006 also reflects a discrete item recorded in the first quarter for the tax benefit related to a Medicare subsidy created under the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Company expects a full-year effective tax rate between 35.5 and 36.0 percent for fiscal 2007.

Segment Results

Net sales and operating profits for each of the Company s segments are set forth below. As noted above, Dan s Prize became an operating segment of Refrigerated Foods beginning in fiscal 2007 (previously reported in the All Other segment). All prior year information has been reclassified to reflect this change. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, we do not represent that these segments, if operated independently, would report the operating profit and other financial information shown below. Additional segment financial information can be found in Note K of the Notes to Consolidated Financial Statements.

	Three Months Ended			Six Months Ended		
	April 29, 2007	April 30, 2006	% Change	April 29, 2007	April 30, 2006	% Change
Net Sales						
Grocery Products	$ 223,625	$ 200,955	11.3	$ 429,841	$ 404,912	6.2
Refrigerated Foods	796,339	715,245	11.3	1,594,311	1,474,366	8.1
Jennie-O Turkey Store	270,044	254,607	6.1	546,658	521,653	4.8
Specialty Foods	169,069	157,016	7.7	346,148	308,178	